Chapter 2
Industry Analysis

1. Formally scanning and analysing the external environment continuously is the best approach.
@Pages and References: Pages 53-56
a. T
*b. F

2. To understand the effect of the external environment, one must be able to rank the factors in order of importance.
@Pages and References: Pages 53-56
*a. T
b. F

3. "Consumer surplus" is the extra product consumers get through special offers and bulk discounts, when suppliers make surplus product to generate extra sales.
@Pages and References: Pages 56-57
a. T
*b. F

4. Value is defined as the difference between the cost of supplying a product or service and the actual price paid by the customer for it, although not all value translates into profit.
@Pages and References: Pages 56-57
*a. T
b. F

5. The level of profit in an industry is determined by three factors: the value of products to customers, the intensity of competition, and the relative bargaining power of producers and suppliers.
@Pages and References: Pages 56-57
*a. T
b. F

6. When a firm dominates a specific segment in an industry, it is well-placed to earn a higher level of profit than the average.
@Pages and References: Pages 57-61
*a. T
b. F

7. We analyse industry structure because this is the primary factor in determining profitability.
@Pages and References: Pages 57-61
a. T
*b. F

8. Even pure monopolies have substitutes.
@Pages and References: Pages 57-61
*a. T
b. F

9. Michael Porter's five sources model helps you identify and understand industry structure.
@Pages and References: Page 61

*a. T
b. F

10. For a specific product or service, the existence of close substitutes means that customers could switch to these substitutes if prices, service levels or other factors make it in their interests to do so.
@Pages and References: Pages 61-63
*a. T
b. F

11. In a contestable market there does not always need to be actual competition to keep prices relatively low – just the threat of competitors entering the market.
@Pages and References: Pages 63-66
*a. T
b. F

12. Economies of scale, absolute cost advantages, high capital start-up costs, and access to channels of distribution are all examples of "barriers to entry".
@Pages and References: Pages 63-66
*a. T
b. F

13. Retaliation against a new entrant may take the form of aggressive price-cutting, increased advertising, sales promotion, or vexatious litigation.
@Pages and References: Pages 63-66
*a. T
b. F

14. A high Concentration Ratio is typical of Oligopolistic industries, dominated by a few large players.
@Pages and References: Pages 66-68
*a. T
b. F

15. Excess capacity often leads firms to cut prices to hold on to existing business for fear that competitors will do the same first, leaving them with a lower market share, and adverse average costs.
@Pages and References: Pages 66-68
*a. T
b. F

16. Having high fixed costs makes it hard to make a profit in a recession, so is indicative of poor cost-control.
@Pages and References: Pages 66-68
a. T
*b. F

17. The bargaining power of one player in the industry relative to another player rests, ultimately, on a credible threat to refuse to deal with the other player.
@Pages and References: Pages 68-70
a. T
*b. F

18. There is no single absolute definition of what an “Industry” is.
@Pages and References: Pages 73-78
*a. T
b. F

19. Understanding the structure of the industry helps managers to work out how to make a profit in future and to possibly identify ways to change the industry structure to their advantage.
@Pages and References: Pages 73-78
*a. T
b. F

20. Porter's 5 Forces model arguably has some deficiencies and does not answer all possible questions. But this is true of all models.
@Pages and References: Page 78
*a. T
b. F

21. Understanding the external environment of a firm requires one ultimately to identify:
@Pages and References: Page 50
*a. The opportunities to make profit in the industry
b. The five forces identified by Porter’s model
c. The barriers to entry and to exit in that industry
d. The expected level of profit in the mid-term for that industry

22. Given the plethora of external influences, understanding the external environment requires managers to:
@Pages and References: Pages 53-56
*a. Use a framework or a system that allows them to organize information and rank factors
b. Monitor their rivals closely to detect signals of change in their strategies
c. Use all existing techniques to gather and analyze information
d. Work on the matter full-time

23. To understand the environment, the starting point of the analysis is:
@Pages and References: Pages 53-56
a. Classifying the environmental influences by source
b. Classifying the environmental influences by proximity
c. Both a and b
*d. To identify the industry you are in; your customers, suppliers and competitors

24. One can view the connection between the general environment and the industry environment as:
@Pages and References: Pages 53-56
a. The general environment is diffuse, whereas the industry environment consists of a small number of close competitors
b. The industry environment consists of customers, suppliers, rivals, and new entrants, whereas the general environment comprises everything else
*c. The industry environment includes customers, competitors and suppliers, whereas the general environment matters to the extent that it affects the industry environment
d. The critical influence of the industry environment on the wider social environment

25. The core of a firm’s business environment is determined by:

@Pages and References: Pages 53-56
*a. Its relationships with customers, competitors, and suppliers
b. Its relationships with customers, rivals, government, and suppliers
c. Its relationships with its major stakeholders
d. Its vision and mission

26. If top management understands the customers, suppliers, competitors and the general environment then:
@Pages and References: Pages 53-56
a. It will be a successful company
b. A successful strategy will emerge from these factors
*c. This is a good basis for assessing the industry, but has little bearing on predicting the success of an individual company
d. They can save money by not employing management consultants

27. Value is created when:
@Pages and References: Pages 56-57
a. The price that the customer is willing to pay for a product exceeds the firm's direct cost of production
b. The surplus of value is distributed between customers and producers in the industry by the forces of competition
c. The value of a product to consumers is more than they paid for it
*d. The price that the customer is willing to pay for a product exceeds the firm's cost

28. Once value is created, it is, in general:
@Pages and References: Pages 56-57
a. Equally shared between customers and producers
*b. Not equally shared between customers and producers
c. Distributed to the firm's shareholders
d. Reinvested into the firm or put aside as a reserve

29. "Consumer surplus" is:
@Pages and References: Pages 56-57
a. The difference between the price customers expect to pay, and the price they would have been willing to pay
*b. The total of all the differences between the price each customer actually pays and the maximum price they would have been willing to pay, all other things being equal
c. The difference between the costs incurred in serving customers, and the revenue that they generate
d. The amount of extra product consumers buy because of the difference between the normal price and a special offer price

30. In an industry, the profits earned by firms are determined by:
@Pages and References: Pages 56-57
a. The overall economic situation, and Porter's five forces of competition
b. The degree of concentration of the industry
c. The existence of barriers to entry in the industry
*d. The value of the product for customers, the intensity of competition, and the relative bargaining powers of producers, their suppliers and their buyers

31. The basic premise of industry analysis is that:

@Pages and References: Pages 57-61
a. Competition can be assessed between monopoly and perfect competition within the spectrum of industry structures
*b. The level of profitability within an industry is largely determined by the industry structure
c. The internal variables of the firm determine a firm's performance within the industry
d. Profits are squeezed by powerful suppliers

32. Porter's 5 Forces model is intended to be:
@Pages and References: Pages 57-61
a. Used as an alternative to the earlier PEST model
b. Used primarily as an academic tool
*c. Used in conjunction with PEST and other models
d. Used to analyse industries in the 1980's and 1990's

33. The idea with Porter's 5 Forces is to:
@Pages and References: Pages 57-61
a. Quantify the 5 forces, to ideally produce a mathematical model of the industry
*b. Identify which forces are relatively more powerful, and to assess their impact on competition and industry profitability
c. Work out how management can eliminate these forces
d. Use it to construct a plan to achieve monopoly power

34. A barrier to entry is:
@Pages and References: Pages 63-66
a. Anything that facilitates the entry of would-be new entrants in a specific industry
b. Capital requirements, cost advantages, and product differentiation
c. A law restricting trade
*d. Anything that makes entry into an industry as a new competitor more difficult, more costly, slower or even impossible

35. If an industry earns a return on capital in excess of its cost of capital:
@Pages and References: Pages 63-66
a. Incumbents will earn abnormal profit, and build entry barriers
b. The government needs to make sure that competition will increase
*c. It is likely to attract the attention of firms looking to enter the industry, which may eventually lead to the return on capital falling
d. It will attract firms outside the industry, but the incumbents will have erected entry barriers

36. Industries such as pharmaceuticals earn very high returns on investment. Such industries:
@Pages and References: Pages 63-66
a. Tend to be protected from competition by legal restrictions
b. Can only maintain such high returns for short periods
c. Always exist when intangible products are traded
*d. Tend to have high entry barriers and differentiated products

37. Economies of scale are a barrier to entry because:
@Pages and References: Pages 63-66
a. New entrants do not know where they are positioned on their learning curve
b. New entrants do not yet understand the scale economies so they cannot precisely determine their selling price

c. New entrants face a risk of price retaliation from the incumbents which could occur immediately on a large scale
*d. New entrants face the cost and risk of creating large scale capacity to start with or a severe cost disadvantage if they enter on a smaller scale

38. For a manufacturer access to distribution is a barrier to entry because:
@Pages and References: Pages 63-66
*a. New entrants face a disadvantage from retailers who are reluctant to carry their new products
b. Retailers have limited capacity of distribution to offer to new entrants
c. Retailers are risk-averse
d. Carrying new products induces fixed costs

39. Barriers to entry are effective:
@Pages and References: Pages 63-66
*a. Yes, because long-term empirical evidence shows that industries with high barriers to entry exhibit higher returns on investment on average
b. Yes, because once established they are irreversible
c. No, because firms can overcome these barriers by modifying their strategies
d. No, because higher returns attract more new entrants who want to benefit from higher returns than in non-protected industries

40. Barriers to exit are:
@Pages and References: Pages 73-78
*a. The non-recoverable costs of quitting or scaling down capacity in an industry
b. Legal restrictions which prevent a firm from leaving an industry
c. The opposite of barriers to entry
d. Of no consequence if you don't plan to leave the industry

41. Firms in any industry can be said to operate in two major markets:
@Pages and References: Pages 68-70
a. The labour market and the output market
*b. As a buyer in the supplier market, and as a seller in the customer market
c. The labor market and the input markets
d. The product market divided at least in two segments (such as mid-size car and SUV market segments)

42. The overall bargaining power of buyers depends on:
@Pages and References: Pages 68-70
a. The buyer's price sensitivity
b. The intensity of rivalry among sellers and the willingness of the buyer to exploit this
*c. The buyer's price sensitivity and the relative bargaining power between the seller and the buyer
d. The intensity of rivalry among buyers and the ability to vertically integrate

43. Bargaining power rests, ultimately, on:
@Pages and References: Pages 68-70
a. The negotiating skills of the buyer versus the seller
b. Historic and accidental events
c. The respective effectiveness and cohesion of top management teams
*d. The perceived or real threat for one party to refuse to deal with the other party

44. The relative bargaining power of buyers depends on:

@Pages and References: Pages 68-70
a. The size and concentration of buyers relative to suppliers
b. A buyer’s access to information about products and costs
c. The ability or threat to integrate vertically
*d. All of the above

45. The bargaining power of suppliers is likely to be high:
@Pages and References: Pages 70-73
a. When the suppliers’ industry is concentrated
b. When suppliers are supplying differentiated products
c. When “our” (the customer’s) industry is relatively fragmented
*d. All of the above

46. The analytical tools described in the text:
@Pages and References: Pages 73-78
a. Must be used if one is to understand the industry structure
*b. Are simply that; just tools. Their value depends on the skill with which they are deployed
c. Should really only be used by academics
d. Both a and c

47. To forecast industry profitability consistently accurately, professional analysts have to:
@Pages and References: Pages 73-75
a. Look at the link between performance and industry structure, then to identify major trends and to examine the link between these trends and the forces of competition
b. Look at the probability of new entries in the industry, to determine the major trends, and to forecast the probable overall industry profit
c. Determine the five largest players in the industry and their relative bargaining power in regards to their buyers and customers, and to identify their strengths and weaknesses
*d. Develop a deep understanding of how the industry creates value now and in the future, whether they use the tools described in the chapter or not

48. An industry’s current profitability:
@Pages and References: Pages 73-75
*a. On its own tends to be a poor predictor of future profitability
b. Is an excellent predictor of its future profitability
c. Explains the past in that industry
d. Is determined by the forces of competition and so many other factors that gaining insights into its causes is almost impossible

49. Suppose that an industry’s profitability is zero or negative overall:
@Pages and References: Pages 73-75
a. Then all firms in the industry are performing badly
b. Then no firm in the industry can be performing well
c. Then the biggest firm in the industry is performing badly
*d. Then even so it’s entirely possible that some firms are making very good profits

50. Understanding the competitive forces in an industry is:
@Pages and References: Pages 73-75
a. A largely futile exercise for managers
b. Is of academic interest, but does not bring any value for strategic management
c. A way to enable managers to allocate their resources where competition is the strongest

*d. A way to enable managers to position the firm where its particular capabilities can be deployed to best advantage

51. Changing the industry structure is:
@Pages and References: Pages 73-75
a. Not really within the power of a single firm
b. An endeavour that firms are undertaking on a permanent basis with great success
c. A risky strategic move that may backfire, because of retaliation from the industry's incumbents
*d. Sometimes possible even by small firms, if the mix of drivers for change and existing structure make it susceptible to change

52. "The market" and "the industry" are:
@Pages and References: Pages 78-81
*a. Related but not the same thing
b. Unrelated and different
c. Exactly the same concept, and can be used interchangeably
d. Exclusively used in marketing and strategic management respectively

53. Market and industry are:
@Pages and References: Pages 78-81
a. Very specific economics terms which must be rigidly adhered to
b. Are concepts which require careful consideration of their philosophical underpinning to use correctly
*c. Somewhat flexible in scope depending on what aspect of business you are considering
d. Close concepts where market is identified with broader sectors, while industries refer to specific technologies

54. A market's boundaries are defined by:
@Pages and References: Pages 73-78
a. The geographies of the markets that are supplied by the incumbents
b. The type of product which is sold, and the type of customers willing to pay for the product
c. Substitutability on the demand side and on the supply side
*d. Substitutability on both the demand side and the supply side, combined with an element of judgment depending on context and purpose

55. In practice, drawing the boundaries of industries and markets is:
@Pages and References: Pages 73-78
a. A matter of personal preference on behalf of top managers
b. Almost impossible to carry out with rigor because it requires many "rules of thumb" and approximations
*c. Largely a matter of judgment and experience contingent on the purpose of the analysis
d. Critical to the output of the analysis and therefore should only be undertaken with the help of an academic or consultant

56. A 6th force – Complements - should arguably be added to Porter's 5 Forces Model because:
@Pages and References: Page 78
a. Porter's original analysis was inadequate
*b. It's clear that since Porter devised his model, Complementers have evidently become more important
c. Porter's model was developed over 30 years ago, so is old-fashioned
d. Answers b and c

57. Porter's 5 Forces model was based on a static, stable view of industry which ignores dynamic forces:
@Pages and References: Page 78
a. Because industries in Porter's day were not very dynamic
*b. Which can easily be dealt with by taking a dynamic perspective of the forces e.g. Innovation is a consequence of Rivalry
c. And so has outlived its usefulness, and should be replaced with something more up to date
d. Which was Porter's intention, because you have to "walk before you can run"

58. Analysing key success factors leads one to ask the following two questions:
@Pages and References: Page 87
*a. What do customers want which we could supply profitably and what should the firm do to survive competition?
b. What do customers want and what type of operational changes should a firm implement to survive competition?
c. Which of the five forces of competition are critical for a firm's survival and how could the firm deal with them?
d. How should managers analyse information collected from the market and what should they do about it?

59. The question "What do customers want?":
@Pages and References: Page 87
a. Is not relevant because customers will show their preferences through their behaviour
*b. Must be asked by managers, and an accurate answer obtained and understood, since it's the driving force behind generating profit
c. Can be outsourced to a Market Research company
d. Is best answered by ensuring that certain managers are educated in Marketing

60. The question "What does a firm need to survive competition?":
@Pages and References: Page 87
a. Can be addressed through analysis of competitors using all possible means, even at the edge of legality and ethics
b. Can be addressed by studying very carefully the two largest rivals in the industry
*c. Requires an understanding of the current and future basis of competition specific to the industry
d. Can never be answered clearly, because competitors will not divulge what they are doing

61. The value to managers of understanding key success factors is:
@Pages and References: Page 87
a. Self-evident
b. Legitimate because it is accepted by the academic world
c. That it generates "generic strategies" which guarantee success
*d. To help maintain a strategic perspective of what needs to be done to survive, and help them avoid degenerating into a fire fighting approach